

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 6110

BILL NUMBER: HB 1340

DATE PREPARED: Jan 10, 1999

BILL AMENDED:

SUBJECT: Retired state employee health insurance.

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FUNDS AFFECTED: X GENERAL
DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: This bill requires the state to pay the employer's share of the health insurance premium for retired state employees who are not eligible for Medicare coverage and meet certain other requirements.

Effective Date: July 1, 1999.

Explanation of State Expenditures: The state is required to contribute the employer's share of health insurance premiums for the current early retirees. Based on current plan rates, the cost would be as follows:

For single coverage: 260 singles x employer share of \$83.67 x 26 pays = \$565,609/year

For family coverage 43 families x employer share of \$209.79 x 26 pays = \$234,545/year

TOTAL \$800,154/Year

Based on medical claims experience from January 1, 1997 through December 31, 1997, the early retiree population's claims are costing the state approximately 1.134 (adverse experience factor) more than the non-retiree population. (Note: The adverse experience factor is based on current claim experience. This factor could be reduced assuming that this proposal may allow healthier people to retire early.) For the people who have already retired, the state is absorbing the adverse experience factor. The fiscal impact of this proposal addresses those who are eligible for this enhanced benefit, but have not yet retired. Also, there is a fiscal impact to the state noted above because the provisions of this bill establishes an employer contribution for early retirees. Currently, there is no such contribution rate.

If this program created an incentive for those not yet retired to retire early, the costs can be estimated as follows:

For single coverage (\$83.67 employer bi-weekly cost x 26 pays) + (\$87.06 total cost including employee share x adverse experience factor 1.134 x 26 pays) = \$4,742 per new single employee.

For family coverage $(\$209.79 \text{ employer bi-weekly cost} \times 26 \text{ pay}) + (\$250.17 \text{ total cost including employee share} \times \text{adverse experience factor } 1.134 \times 26 \text{ pays}) = \$12,830 \text{ per new family.}$

Current retirees are split, with 86% having single coverage and 14% with family coverage. There are approximately 8,325 active employees age 55, with at least 20 years of service who are not yet eligible for Medicare but might have an incentive to retire early due to the provisions of this bill.

Based on an experience study conducted by the actuaries for the Public Employees Retirement Fund, about 10% of those eligible for retirement each year actually retire. With the enhanced benefit offered in this proposal, it is estimated by the actuaries that about 18% of those eligible could retire early. Based on this projection, the impact for the state would be as follows:

For single coverage, $666 \times 86\% = 573 \times \$4,472 \text{ per year, per new single employee} = \$2.56 \text{ million per year.}$

For family coverage $666 \times 14\% = 93 \times \$12,830 \text{ per family, per year} = \$1.19 \text{ million per year.}$

The specific impact over time will depend upon the number who actually retire each year and the rates in effect at the time.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: All.

Local Agencies Affected:

Information Sources: Keith Beesley, Legal Counsel of the State Department of Personnel, 232-3062; Doug Todd of McCready & Keene, Inc., actuaries for the Public Employees Retirement Fund, 576-1508.